

TO: County Commission

Mayor Wharton

FROM: Commissioner Steve Mulroy

RE: Prevailing Wage Ordinances: Studies Re: Costs & Benefits

DATE: May 2009

Below is a summary of relevant studies addressing the issue of the costs and benefits of prevailing wage ordinances. This memo reviews national studies, studies from other states, and local studies.

In sum, the studies suggest that adoption of a prevailing wage ordinance affecting major construction contracts would not significantly increase the County's costs for construction contracts. Prevailing wage laws lead to higher-productivity workers, ameliorating any increase from higher wages. They also yield dividends in higher tax revenues, reduced need to provide health and retirement-related services to workers with better wages and benefits, lower worker injuries, and a better-trained local workforce.

Nationwide Studies:

Highway Costs. The Construction Labor Research Council of the Federal Highway Administration studied all Federal Highway Administration projects between 1980 and 1993, comparing the 13 highest-wage states (average wage, \$17.64/hr) to the 13 lowest-wage states (average wage, \$9.21/hr). Total costs per mile averaged \$123 *less* in the high-wage states. Bob Gasperow, *Do Higher Wages Raise Labor Costs?* (Report of Construction Labor Research Council, Federal Highway Administration) (2001). *See also* Dr. Peter Fisher & Dr. Michael Sheehan, *Economic Impacts Of A Prevailing Wage Law For Iowa State Construction Projects* (academic study prepared for Iowa State Bldg. & Trades Council) (impact of proposed Iowa PW law would increase state highway construction costs by less than 1%).

School Construction Costs. The above results regarding highway costs jibe with a 2001 study by the University of Utah's Dr. Peter Philips comparing five prevailing wage (PW) states (NM, TX, OK, WY, and NV) to four non-PW states (AZ, UT, ID, and CO). It found that construction costs—including, specifically, school construction costs—were actually *lower* in the PW states. *See The Facts About Prevailing Wage Laws* (3rd ed.), at 1-2. In another study, Dr. Philips looked at 391 new school construction projects between 1991 and 2000, in a “before and after” comparison within three states which had changes in Prevailing Wage policy: Kentucky, which adopted PW in 1996; Ohio, which exempted school construction from its PW after June 1997; and Michigan, which suspended its prevailing wage law in 1994 during litigation, and resumed it after a favorable ruling in 1997. The study showed *no statistically significant cost difference between schools built with and without PW laws.* Id.

The Philips studies are consistent with those by SUNY Cortland Economics Professor Dr. Mark Prus. In a 1999 study, he compared school construction costs among 3 PW states (PA, DE, and WV) with 2 non-PW states (VA and NC) and Maryland, which has both PW and non-PW projects. Mark J. Prus, PhD., *Prevailing Wage Laws And School Construction Costs* (1999). Prus controlled for various factors such as cost of materials and cost of living in the various states. Id. at 18-23. He found no statistically

significant effect on total construction costs. *Id.* at 23. To be sure that state differences did not explain the result, Prus examined PW v. non-PW projects in Maryland, varying either by locality or contract (in some local jurisdictions, contracts were either PW or non-PW depending on the percentage of costs borne by the state). *Id.* at 24-30. Again, he controlled for cost of materials and other factors, and again found no statistical difference in total construction costs. *Id.* at 30. This intra-Maryland comparison also indicated that prevailing wage construction workers get paid 7 to 16 percent more than non-PW counterparts. *Id.* at 42.

Exaggerating The Costs Of Prevailing Wage. In general, construction costs attributable to PW laws are exaggerated for two main reasons:

(1) PW laws cause better-trained, higher-quality workers to be used, resulting in a net decline in the number of man-hours needed to complete a job, reduced turnover, and less need to go back and repair faulty original construction work; and

(2) Labor costs are actually far lower a percentage of total construction costs than often assumed—typically as low as 25 to 30 percent of total costs. *Id.* at 2-3; Mark J. Prus, PhD., *Prevailing Wage Laws And School Construction Costs* (1999), at 11-12 (study by SUNY Cortland Economics Professor); Carlos Davidson, *A Case Study of the USS-POSCO Modernization* (report by UC-Berkeley Professor to Contra Costa County Board) (1990) (PW reduces turnover and overall costs);

The Costs Of Going Without A Prevailing Wage. Although rejecting PW laws does not in fact save money, it does cause real harm to workers and the tax base. In a 1998 study, Utah University's Dr. Philips looked at the repeal of PW in Kansas. Again, there was no cost savings. However, PW's repeal did cause:

+Apprenticeship training to fall 38%, and minority apprenticeship training 54%¹

+Total employer contributions to pension and health benefits to fall 17%

+Worker injuries to rise 19%

Peter Philips, *Kansas And Prevailing Wage Legislation* (report to the Kansas Senate Labor and Industries Committee) (1998). Nor was this dynamic isolated to Kansas. Philips' 1995 study of 9 states which repealed PW laws concluded that construction worker earnings substantially declined, *as did state sales and income tax revenues*. Peter Philips, *Losing Ground: Lessons From The Repeal Of Nine "Little Davis-Bacon" Acts* (Univ. of Utah publication) (1995). Also suffering a decline was **worker training**, which fell by 40% and even more among minority workers. *Id.* At the same time, injuries rose 15% and *cost overruns escalated*. *Id.* A similar University of Wisconsin study examining the same 9 states confirmed these findings. It found that the decrease in sales and income exceeded the minimal

¹ PW critics cite a study purporting to show that PW laws hurt minority employment. See A.J. Thieblot, *Prevailing Wage Laws and Black Employment in the Construction Industry* (1999). However, recent scholarship challenges Thieblot's study as methodologically flawed. For example, Thieblot relies heavily on data showing higher rates of black construction employment in states which have repealed PW laws. However, those states are predominately in the South, which had a higher black population and thus a higher black construction worker percentage *even prior to the repeal of prevailing wage laws*. This and other research cast doubt on the existence of any correlation between PW repeal and black construction employment. See Hamid Azari-Rad & Peter Philips, *Race And Prevailing Wage Laws in the Construction Industry: Comment on Thieblot*, 24 JOURNAL OF LABOR RESEARCH 161 (2003).

savings on construction costs, yielding no net benefit to taxpayers. Dale Belman & Paula Voos, *Prevailing Wage Laws In Construction: The Cost Of Repeal In Wisconsin* (1995).

PW laws improve worker benefits as well as worker wages. Indeed, a comprehensive nationwide study by a UC-Berkeley economist showed that PW laws enhance both wages and benefits, with the largest increase going toward employer pension contributions. Jeffrey Peterson, *Health Care And Pension Benefits For Construction Workers: The Role Of Prevailing Wage Law*, 39 INDUST. RELATIONS 246 (Apr. 2000). PW laws tend to create an incentive for both employers to pay, and workers to accept, a larger percentage of their total compensation in the form of benefits. *Id.* This benefits local government, which has less need to provide health or retirement services to employees to fill gaps in health insurance or pension coverage. Indeed, one study concluded that in lieu of meeting PW requirements by increasing “take home pay,” employers could save money and increase their bottom line by offering employees a choice of “flexible benefit” plans where the employee makes a pre-tax contribution to the benefit plan of her or his choice. The contractor not only reduces payroll taxes, but gives the worker flexibility to balance benefits and pay. Brian Nobis, *Offering Fringe Benefits To Employers Can Increase A Contractor’s Bottom Line*, AMERICAN CITY BUSINESS JOURNAL, Apr. 14, 1997.

Local Studies: A 2005 random sampling of 12 Prevailing Wage projects by the City of Memphis showed that all such studies came in significantly under budget. (Summary loaded onto SIRE system).

Studies Arguing A Different Conclusion: In 2003, the University of Memphis did a survey of the literature on prevailing wage laws for the City of Memphis. The study listed 25 articles in support of PW laws and 25 articles against. The articles included academic studies like those noted above plus position papers put out by think tanks and articles in newspapers and public periodicals.

With few exceptions, the articles arguing against PW laws were either by right-wing think tanks committed to “free market” positions and against any regulation on ideological grounds (e.g., the Buckeye Institute); or were pure opinion pieces by right-wing commentators (e.g., Clint Bolick); were anonymous; or were by Prof. Thieblot (about one-quarter of them), whose methodology in this area has been criticized by other scholars (see footnote 1 above). Of the remaining, several were based on estimates using the flawed method described above (i.e., failing to take into account how higher-skilled workers could reduce the man-hours required for completing the job), or it was impossible to determine what the methodology was.